



## Is a Dividend Hike Coming for Barrick Gold Corp.?

### Description

The year 2013 was bad for **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) shareholders. Gold prices plunged nearly 30%, and, at the same time, Barrick's aggressive and debt-fueled expansion strategy started to backfire, which resulted in Barrick posting a second-quarter loss of US\$8.6 billion. This was largely due to the write-down of its massive Pascua-Luma mine, which was seeing expanding costs.

Barrick's healthy dividend of US\$0.20 per share was slashed mid-2013 to \$0.05 per share. Then in August 2015, Barrick once again announced a dividend cut to \$0.02 per share, which gives Barrick's U.S. shares a yield of only 0.4%.

Barrick's recent cut was under slightly better terms as the company did it as part of an aggressive plan to reduce its total debt by \$3 billion in 2016 (which it overachieved on). Since the end of 2014, Barrick's aggressive debt repayments have saved it interest costs of \$180 million, which is nearly double its current \$93 million dividend. If strong gold prices continue, does this mean shareholders could be rewarded with a hike?

### The gold outlook is supportive of a hike

Gold has staged an impressive 20% rally this year, and Barrick's cash flow is highly sensitive to the price of gold compared with its peers. Analysts at **Bank of Nova Scotia** estimate that a \$100-per-ounce move in the price of gold will increase Barrick's cash flow from operations by 16%.

These same analysts are modelling cash flow from operations in 2016 of \$2.45 billion based on \$1,200-per-ounce gold prices. Gold prices have been above \$1,200 per ounce since early February, however, and the outlook for gold going forward is positive.

Analysts at **JPMorgan**, for example, see gold as being at the start of a lengthy bull market due largely to the proliferation of both nominal as well as real interest rates (or the effective interest rate when inflation is subtracted). Currently, close to \$8 trillion in global debt has a negative yield, and some countries, like Switzerland and Japan, have negative interest rates on bonds up to 10 years.

When inflation is factored in, these rates are even lower. This gives gold a positive carry compared to

other safe-haven assets. JP Morgan sees gold heading to \$1,400 an ounce.

Even a slight increase in average gold prices to \$1,250 per ounce would generate \$196 million in extra cash flow for Barrick. This alone would allow Barrick to comfortably double its dividend.

### **Barrick does have growing capex requirements**

While the outlook for gold may be good, it is important to also look at Barrick's spending. In 2016 Barrick is expected to have total capital expenditures of about \$1.5 billion (this is the high end of its guidance with the low end being \$1.3 billion). Even if Barrick is at the high end of its range, assuming steady gold prices, Barrick would generate nearly \$1 billion of free cash flow.

And 2017 is also expected to be a strong year for free cash flow, but going forward, Barrick's total capital expenditures are expected to trend upward due to four large development projects the company is undergoing. These projects are largely to replace the end of mining at other operations, and production from these projects will not be evident until after 2020.

Barrick estimates that these four projects combined will cost about \$2.1 billion with the majority of the capital expenditures beginning in 2018 and costing Barrick about \$525 million annually until 2021. This is in addition to Barrick's sustaining capital, which will be between \$1 billion and \$1.3 billion over the period.

In addition to this, Barrick has aggressive debt-reduction goals. Barrick is looking to reduce total debt by a further \$2 billion in 2016, with a medium-term goal of reducing it by a further \$3 billion. While Barrick has paid down \$842 million of its \$2 billion goal so far this year (largely from asset sales), the company will need to use most of its free cash flow to cover the rest.

This means that while Barrick can afford a dividend hike, with debt reduction and capital spending being a priority, investors shouldn't hold their breath.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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